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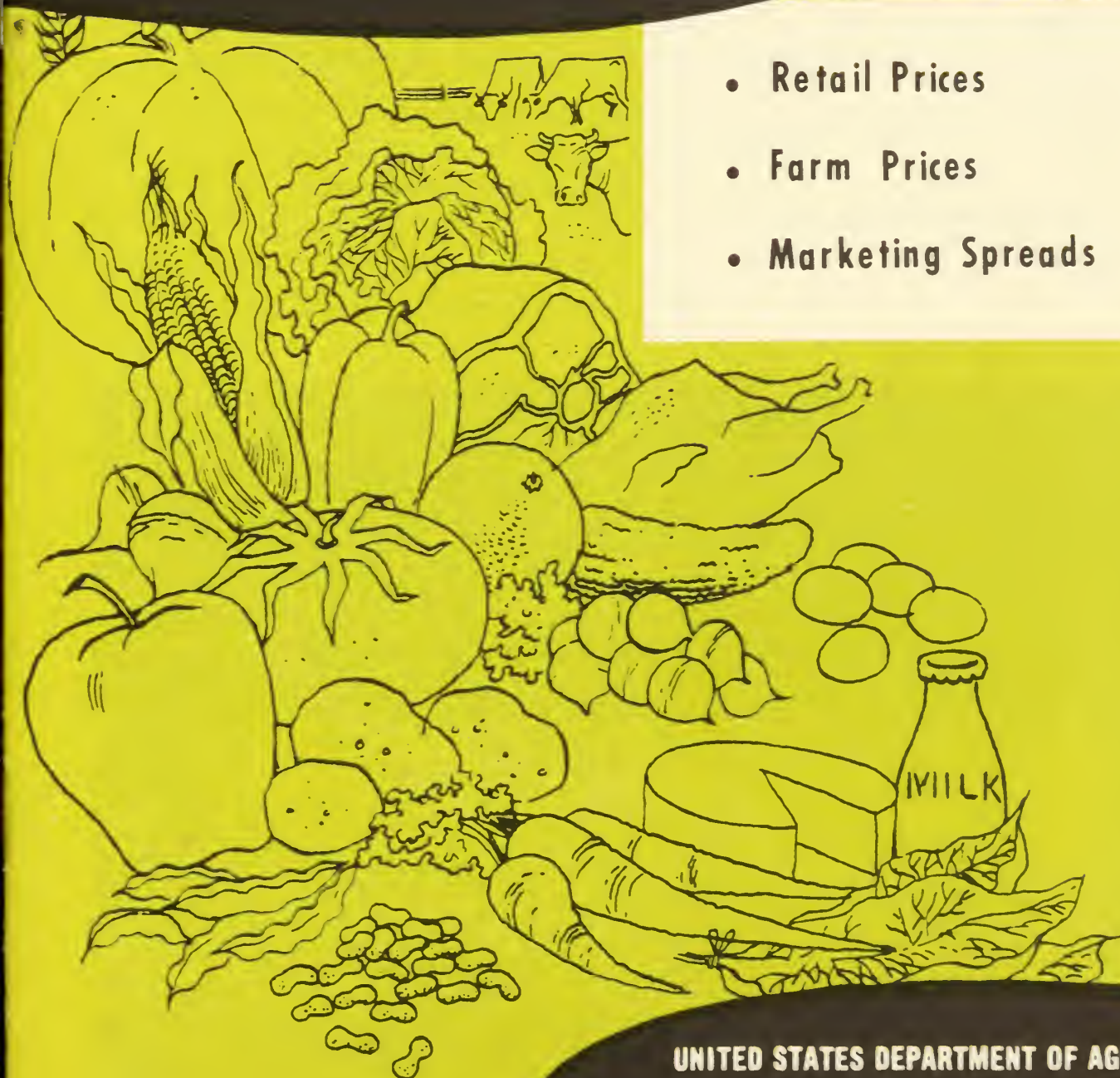
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FOOD COSTS

- Retail Prices
- Farm Prices
- Marketing Spreads



UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
Washington, D. C.

Everyone is concerned about food costs, in one way or another. The consumer's food dollar pays for the services of the many different groups in the economy that produce, process, and distribute our food supply. It pays for the workers in agriculture and for the services, supplies, and equipment used in farm operations. It pays for processing, transporting, wholesaling, retailing, and other marketing services. The money the consumer spends for food becomes income to the farmer and the food industry worker. So farmers, consumers, and market agencies are all interested in how the food dollar is distributed.

This publication summarizes the major trends in farm and retail prices of food, marketing charges, and the relation between food costs and consumer income. It shows, for example, that marketing charges have

increased since 1947-49. But farm prices of food have declined. Retail food prices have increased less than consumer prices generally. Though marketing charges have risen, efficiency of marketing agencies has increased. Only about half of the rise in wages has been reflected in the cost per unit of marketing food, and profits to marketers per unit of food have not changed materially.

The total bill for marketing food has more than quadrupled in the last 20 years, reflecting rising unit marketing charges, an expanding volume of food marketed—mainly to the growing urban population—and the addition of marketing services per unit of product. Incomes have risen more than food prices, however, so a year's income or an hour's work buys more food and marketing services than ever before.

MARKETING CHARGES include all charges by marketing agencies for moving products from the farmer to the consumer, including those for assembling, processing, transporting, and distributing. These charges are measured by the **MARKETING MARGIN**, the spread between the retail price and the farm value. The **FARM VALUE** is the return to the farmer for farm products equivalent to those bought by consumers.

This publication supersedes Miscellaneous Publication No. 708, Marketing Costs for Food.

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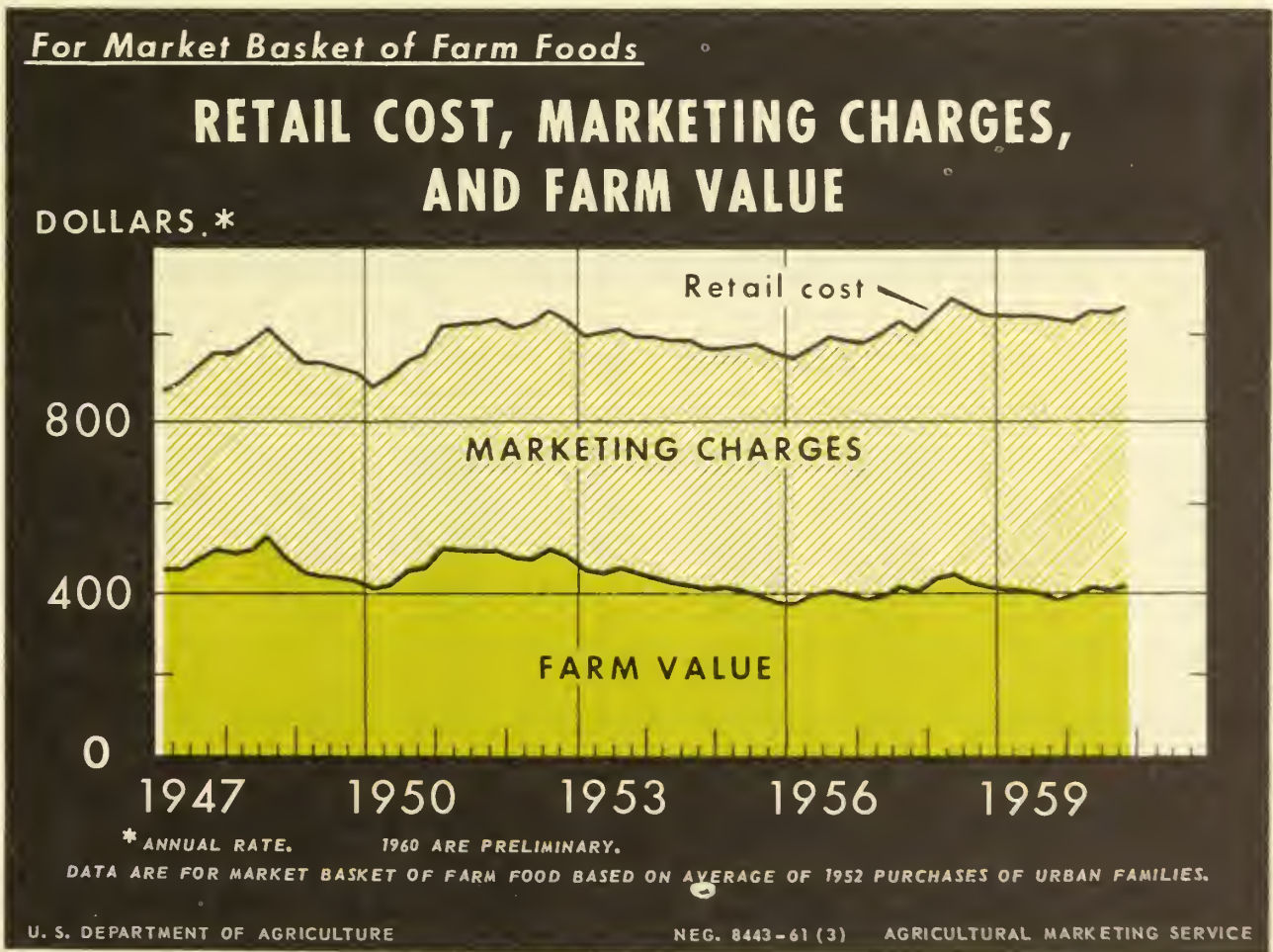
Retail Food Prices Up Less Than Consumer Price Index

Retail prices of food have risen less than most other items in the consumer's budget. In 1960, retail food prices¹ were about a sixth higher than their average in 1947-49, but the Consumer Price Index—the average of prices paid by consumers for all goods and services—was up more than a fourth. Declining food prices moderated the rise in the Price Index during part of this period. Retail prices of foods originating on American farms rose less than the average for all retail food prices, which includes prices of imported foods and non-farm foods. The slower rise in retail food prices than in the Price Index resulted entirely from the decline in farm prices, since charges



for marketing these products increased at a faster rate than the Price Index.

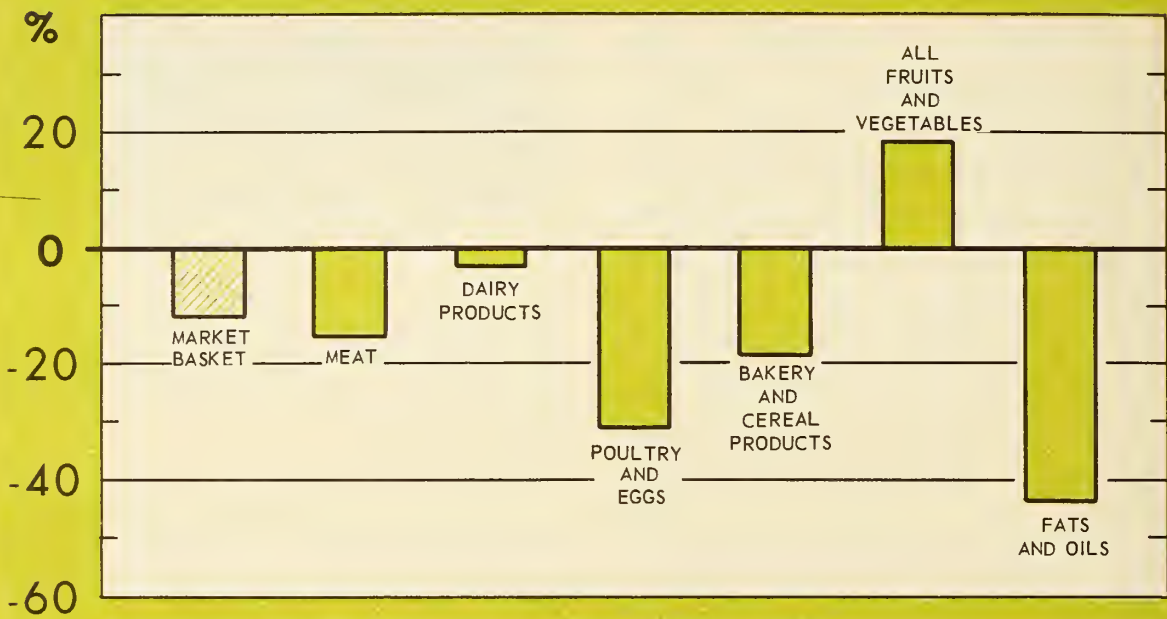
¹ Prices of food bought for preparation at home; retail prices of all foods, including restaurant meals, increased by about a fifth.



For Most Food Product Groups: Farm Values Down, Marketing Charges Up

For Market Basket of Farm Foods

CHANGE IN FARM VALUE OF FOODS 1947-49 to 1960



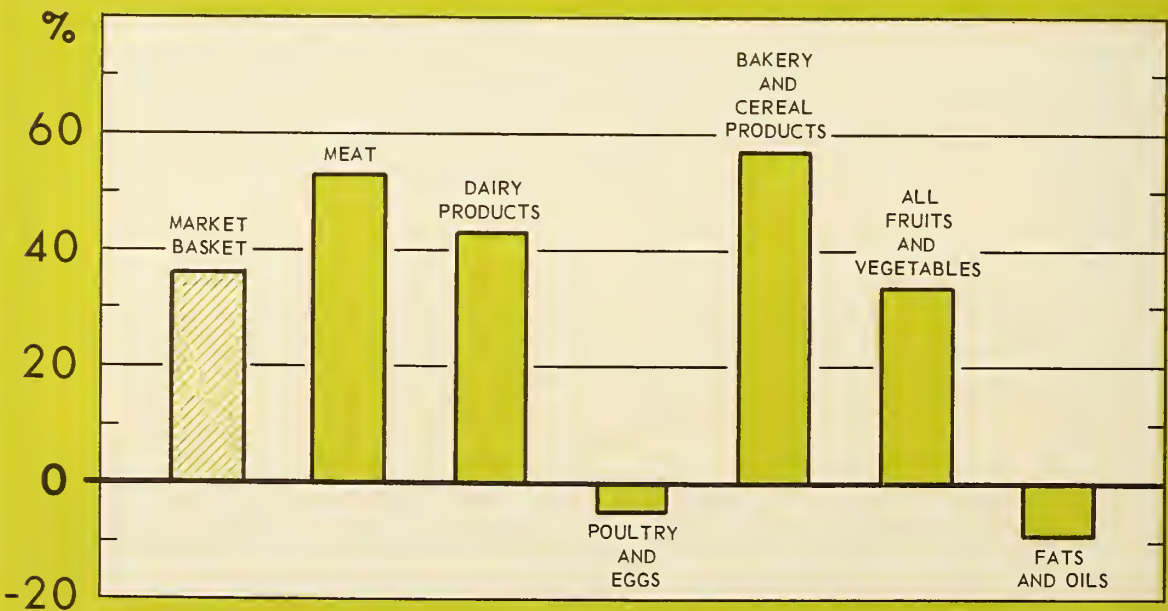
DATA ARE FOR MARKET BASKET OF FARM FOOD BASED ON AVERAGE OF 1952 PURCHASES OF URBAN FAMILIES.

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For Market Basket of Farm Foods

CHANGE IN MARKETING CHARGES 1947-49 to 1960

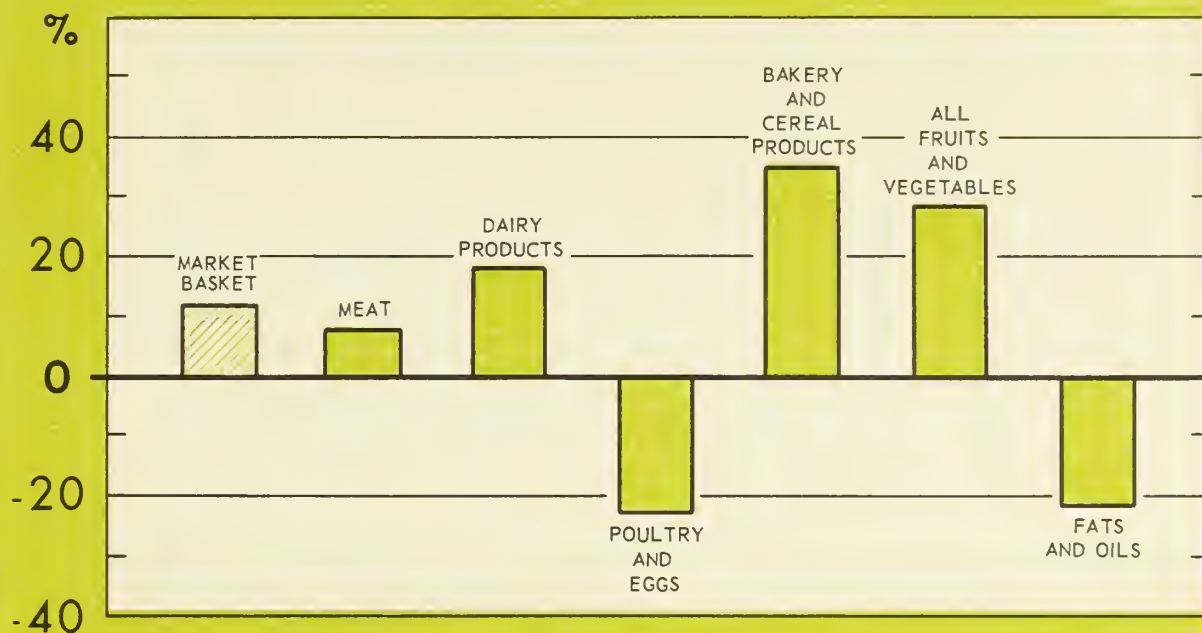


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CHANGE IN RETAIL COST 1947-49 to 1960



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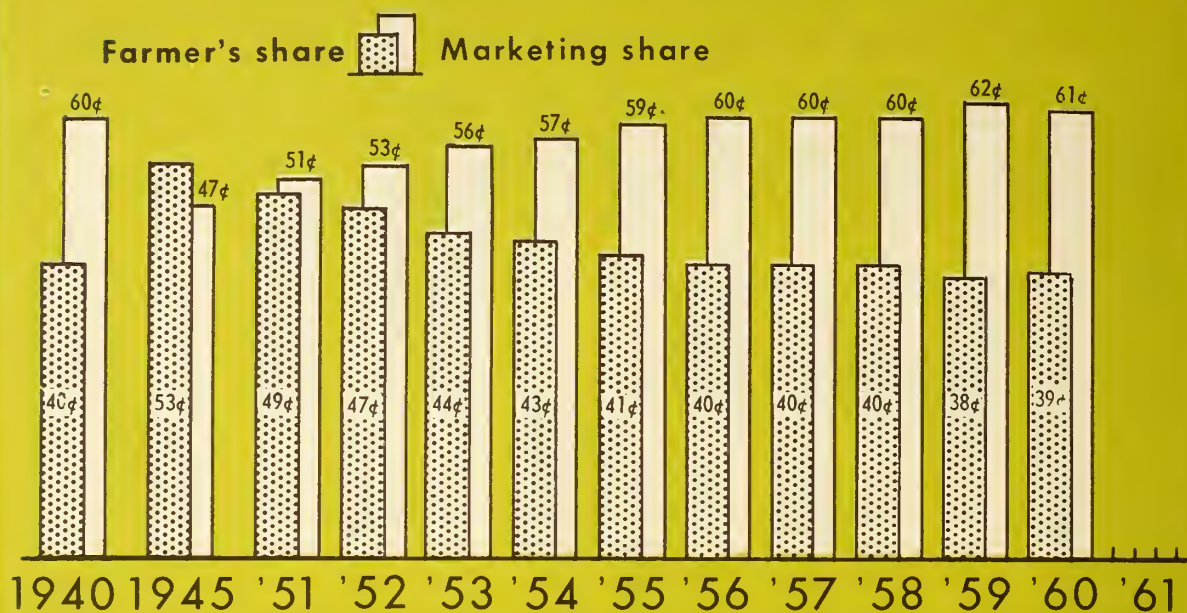
Rise in Retail Cost of Most Food Product Groups

Prices received by farmers for food products declined during much of the last decade. This decline was reflected in a reduction of 12 percent in the farm value of a typical family market basket of farm foods. Farm values declined for all the product groups in the market basket except fruits and vegetables. In most instances these reductions were more than offset by increases in marketing charges

(farm-retail spreads). Thus, retail costs were higher for all groups except poultry and eggs and fats and oils. For these two groups, both farm values and marketing charges were lower. For the market basket of farm foods, total marketing charges in 1960 were 36 percent higher than their 1947-49 average, and the retail cost was up 12 percent.

The FAMILY MARKET BASKET of farm foods contains the average quantities of farm-produced food products purchased per family in 1952 by urban wage-earner and clerical-worker families. It does not include imported foods or other foods not produced on American farms. These foods are valued at retail store prices.

FARM AND MARKETING SHARES OF RETAIL FOOD DOLLAR *



*DATA FOR MARKET BASKET OF FARM FOODS BASED ON AVERAGE 1952 PURCHASES BY URBAN FAMILIES.

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Rising Marketing Charges, Declining Farm Prices Reduce Farmer's Share

Prices received by farmers for food products rose faster than marketing charges from 1940 to 1945, increasing the farmer's share of the retail food dollar. In 1945, farmers received a record 53 cents of the dollar spent by consumers for farm foods in retail food stores. But the almost steady climb in marketing charges and the downward trend

after 1948 in farm prices reduced the farmer's share to 38 cents in 1959. The increase in marketing charges did more to reduce the farmer's share than the decrease in his prices. Farm prices increased more than marketing charges in 1960, causing the first increase in the farmer's share (to 39 cents) since 1951.

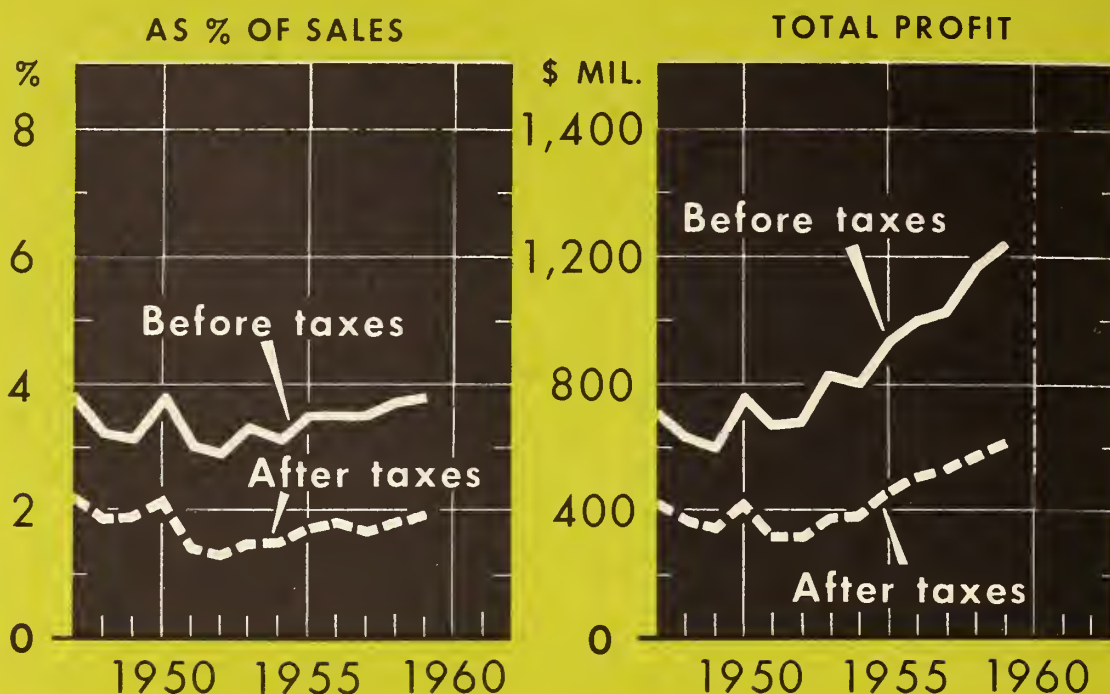


Cost Increases Cause Marketing Firms To Raise Charges

Increases in food marketing firms' costs accounted for most of the rise in marketing charges. Hourly earnings of marketing employees averaged 77 percent higher in 1960 than in 1947-49. Labor costs accounted for about half of the charges for marketing farm

food products. Prices of containers, packaging material, fuel, and most other items bought by marketing firms were up sharply. Freight rates, depreciation charges, interest rates, rents, taxes, and many other costs also have risen substantially.

FOOD MARKETING FIRMS' PROFITS



DATA FOR 45 PROCESSING COMPANIES, 5 WHOLESALE DISTRIBUTORS, AND 8 RETAIL FOOD CHAINS

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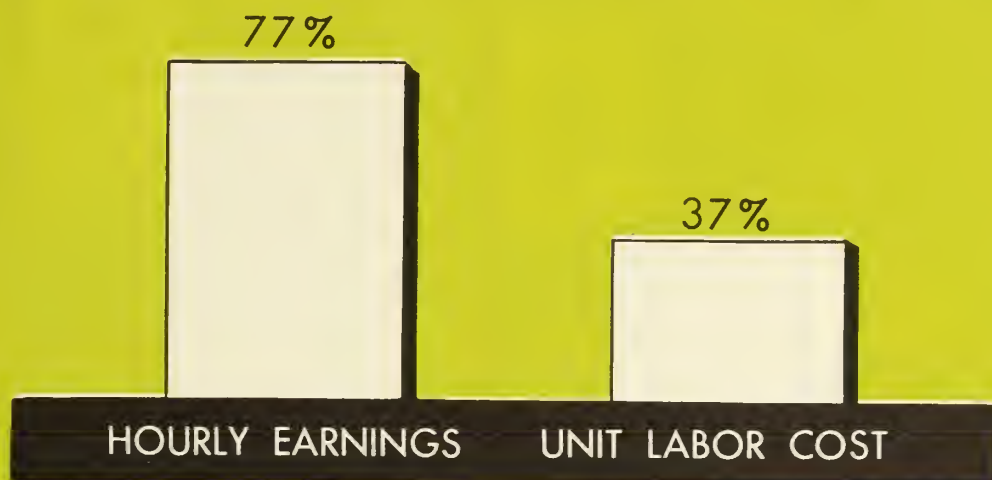
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Profits as Percentage of Sales Increase Slightly Since 1952

Profits (before taxes) of marketing firms have made up 5 to 6 percent of the bill for marketing farm food products in recent years. As a percentage of the sales dollar, profits of leading food marketing firms have fluctuated considerably. They declined from 1947 to 1952 and have risen gradually since 1952.

Total profits, before taxes, of 58 large food processing, wholesaling, and retailing corporations have grown substantially, mainly because of an increasing volume of products handled and higher selling prices. Since 1954, taxes on income have been slightly more than 50 percent of the combined profits of the 58 corporations.

UNIT LABOR COSTS RISE LESS THAN HOURLY EARNINGS, 1947-49 to 1960



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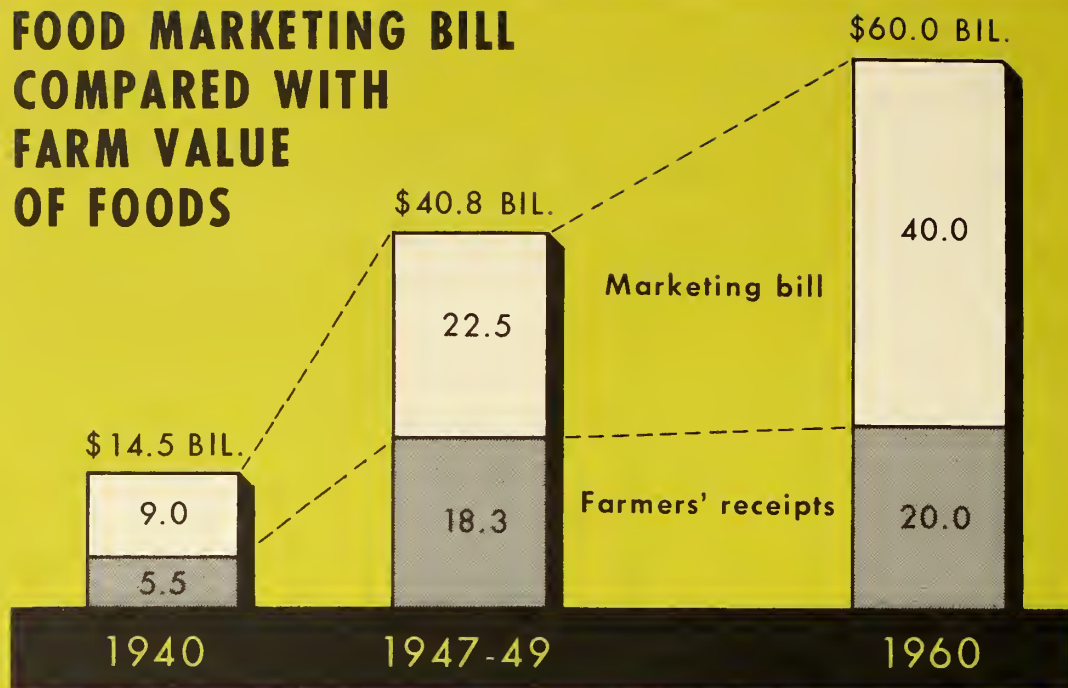
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Increasing Productivity Slows Rise in Marketing Charges

By improving efficiency, marketing firms generally have been able to make a profit without raising marketing charges as much as wages and other costs have increased. Increases in the output of marketing services per man-hour have kept labor costs from rising as much as wages. In 1960, hourly earnings of food marketing workers averaged 77 percent higher than in 1947-49, but the labor cost per unit of product handled was up

less than half as much as hourly earnings. For example, the total output of factory-processed foods has increased by a third since 1947-49 though the total number of man-hours worked has declined slightly. Output per man-hour was 40 percent greater in 1960 than in 1947-49, and labor costs per unit of output were up much less than hourly earnings. Substantial improvements in efficiency also have been made in wholesaling and retailing.

FOOD MARKETING BILL COMPARED WITH FARM VALUE OF FOODS



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AGRICULTURAL MARKETING SERVICE

National Farm Food Marketing Bill Up \$31 Billion

Not only have marketing costs per unit risen, but the volume of products handled has increased and more services have been provided by the marketing system. Consequently, the total bill for marketing domestic farm food products sold to civilian consumers in this country increased from \$9.0 billion in 1940 to \$40.0 billion in 1960. Farmers' receipts from sales of

these products climbed from \$5.5 billion in 1940 to \$20.0 billion in 1960, while consumer expenditures jumped from \$14.5 billion to \$60.0 billion. During the last 10 years, 1951-60, the marketing bill and consumer expenditures increased each year, but in several years farmers' receipts dropped. They varied from \$18.3 billion in 1955 to \$20.7 billion in 1958.

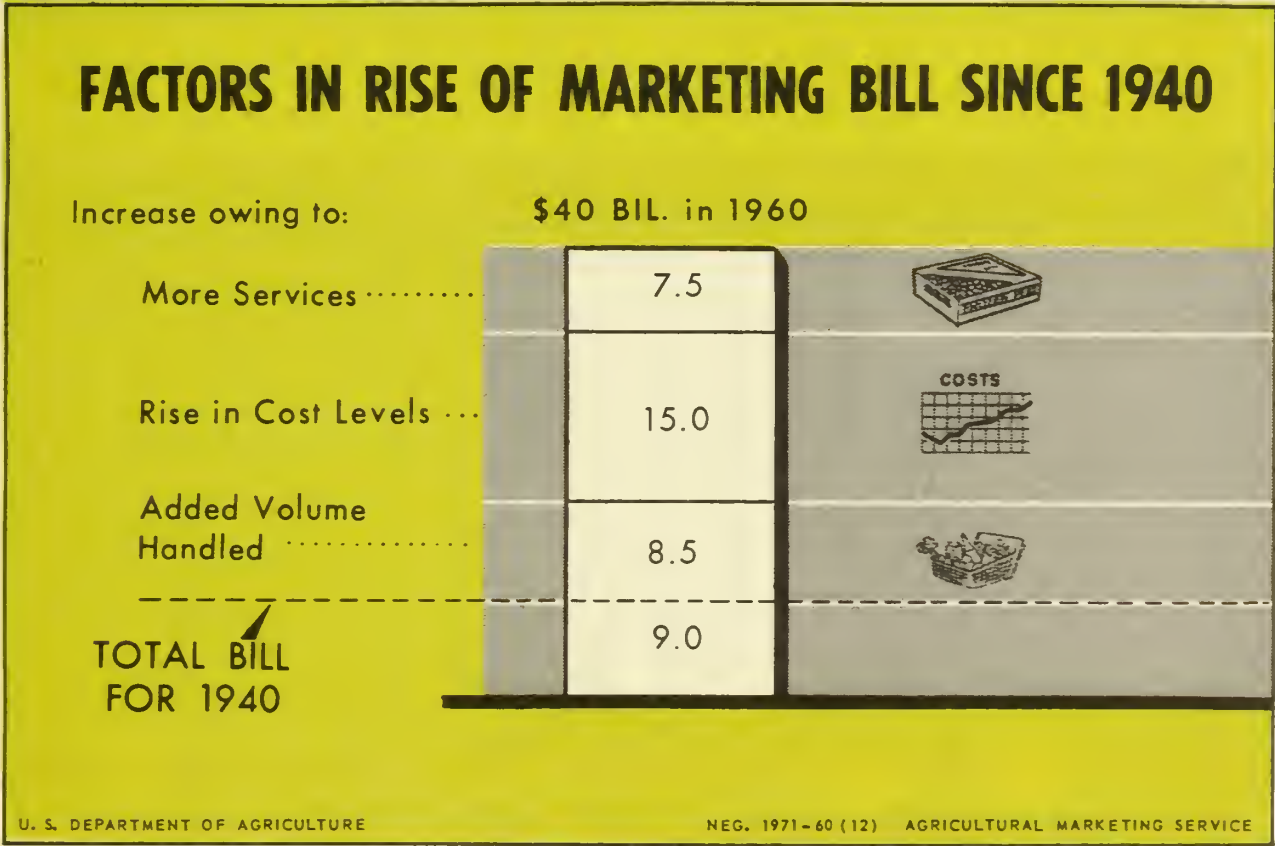
The marketing bill includes all charges for marketing food products originating on American farms and sold to civilian consumers in this country. Food sold in restaurants and other eating places and that sold at less than retail prices is valued at the point of sale.

Rising Unit Costs Account for Nearly Half of Increase in Marketing Bill

The chart below shows factors that accounted for the increase of about \$31.0 billion in the marketing bill from 1940 to 1960. Charges for performing marketing operations rose 134 percent per unit of product marketed, and the volume of food marketed increased 53 percent. This increase in unit marketing charges reflects the general rise in costs and profits since 1940. Increases in unit charges and volume boosted the marketing bill by about \$23.5 billion. The proportion of this increase contributed by

each factor cannot be precisely determined, but it is estimated that rising unit marketing charges accounted for approximately \$15.0 billion and expanding volume for \$8.5 billion.

The remaining \$7.5 billion of the rise in the marketing bill represents payments made by consumers for the increase in marketing services per unit of product handled. Increased services include more meals eaten away from home, more transportation, refrigeration, packaging, and processing.



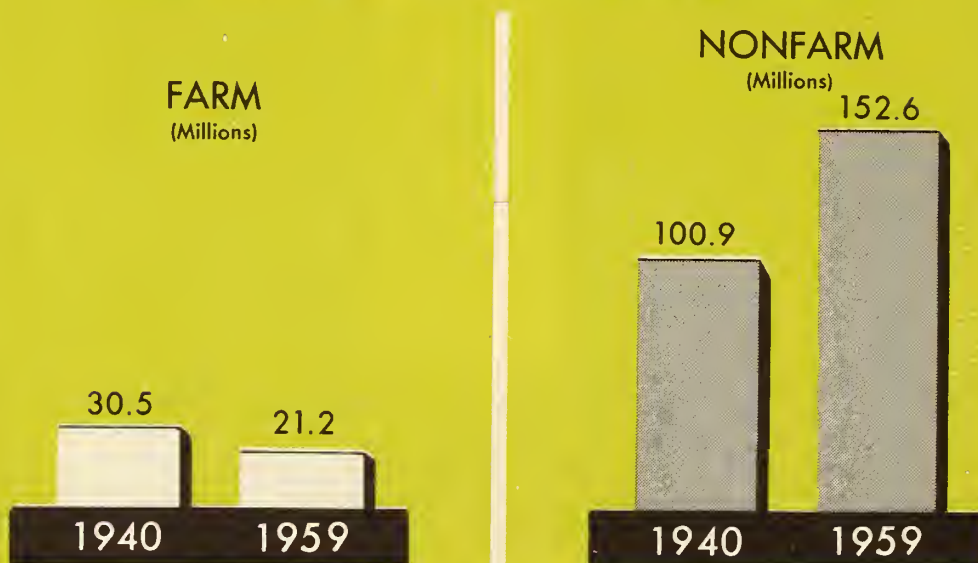
Quantity of Farm Food Marketed Increases More Than Population

The quantity of domestic farm foods sold to civilian consumers in this country was 53 percent larger in 1960 than in 1940. This increase resulted mainly from the growth of about 52 million in the nonfarm population, which was 51 percent larger in 1959 than in 1940. Farm population decreased 9 million. Movement of farm people to the city increases the volume of food marketed, since these people must buy much of the food they formerly produced on their farms. However, both farm and nonfarm people now buy a larger proportion of their food than they did before

World War II. This shift to purchased food also was a factor in increasing the volume of food marketed.



CHANGES IN U.S. POPULATION



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Marketing System Provides More Services to Consumers

The marketing system provides, with food, many services that add quality and convenience or substitute for work formerly performed by the consumer. These services include more sorting and grading, trimming, packaging, processing, storage, and other operations, many of which add to the cost of food.

Consumers now eat more meals away from home than in 1940. More people have jobs away from home and are eating their noon meals in restaurants and cafeterias. A smaller proportion now carry their lunch. Meals eaten away from home now account for about \$1 out of every \$4 spent for food. At least half of the cost of meals is

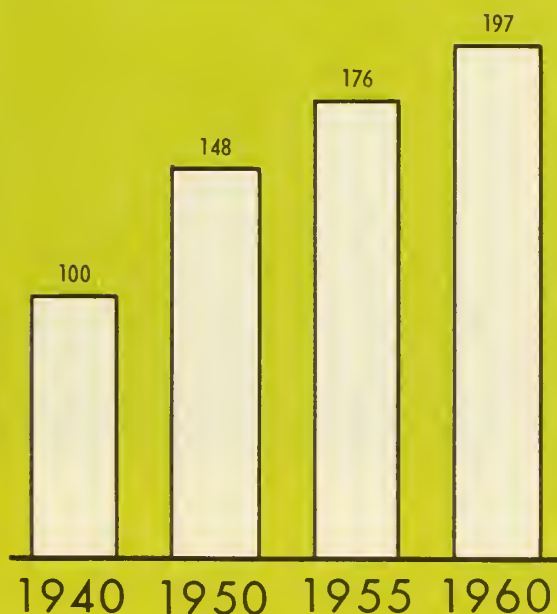
for preparation and service of food.

Not all services necessarily increase cost to the consumer. The extra cost of processing and packaging may be offset by reduction in waste and spoilage and lower cost of shipping and handling. Some services have been reduced, such as credit and home delivery. Yet, on the average, marketing services associated with a unit of food have increased 30 percent since 1940.

Total services rendered by the food marketing system have nearly doubled since 1940, because services per unit of food have increased, and the quantity of farm food marketed has grown by more than 50 percent.

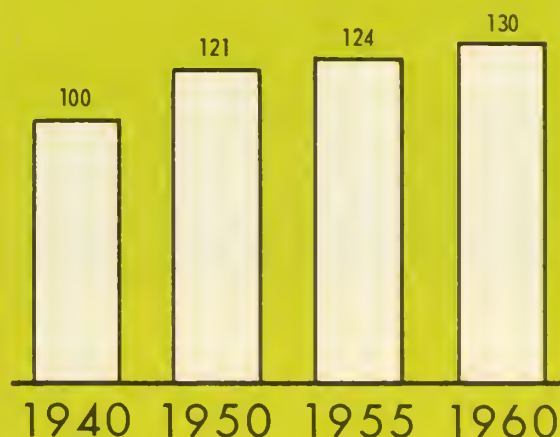
INDEX OF MARKETING SERVICES 1940-1960 *

TOTAL SERVICES



* VALUE IN 1940 DOLLARS

SERVICES PER UNIT
OF FOOD

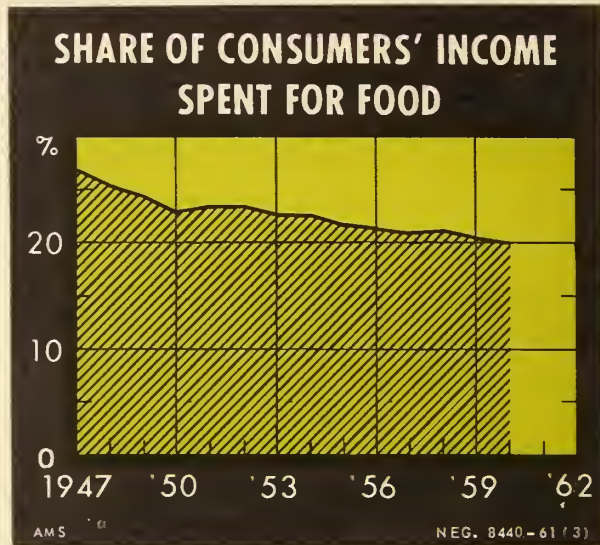


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Consumers Spend Decreasing Share of Income for Food

Consumers spent \$394 per person for food in 1960, up from an average of \$319 in 1947-49. But the 1960 expenditure represented only 20 percent of their disposable income, compared with 26 percent in 1947-49. Thus, the food bill did not rise as much as disposable income, though consumers were shifting to more expensive foods and were buying more marketing services. Retail prices did not increase as fast as disposable income per person.



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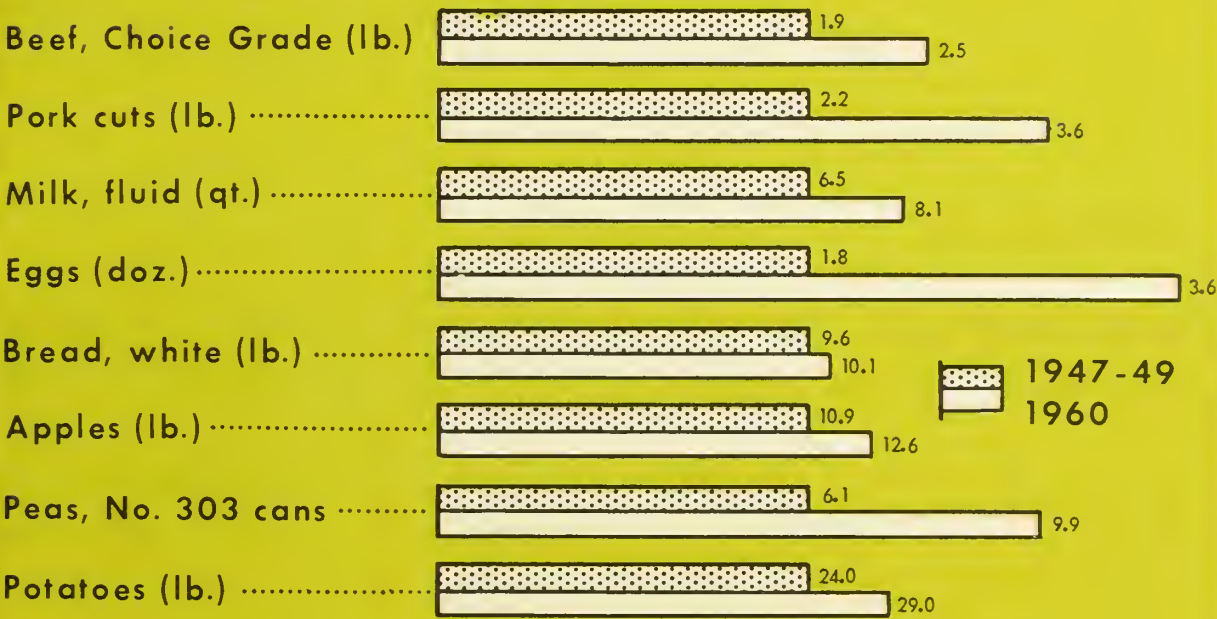
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An Hour's Labor Buys More Food

Though retail food prices have risen since World War II, wages have risen at a faster rate. Thus, with an hour's wages (less income taxes) a factory worker could buy

more of most foods in 1960 than he could in 1947-49. He could, for example, buy 2.5 pounds of beef in 1960, compared with an average of 1.9 pounds in 1947-49.

QUANTITIES OF FOOD 1 HOUR OF FACTORY LABOR WILL BUY 1947-49 and 1960



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Growth Through Agricultural Progress

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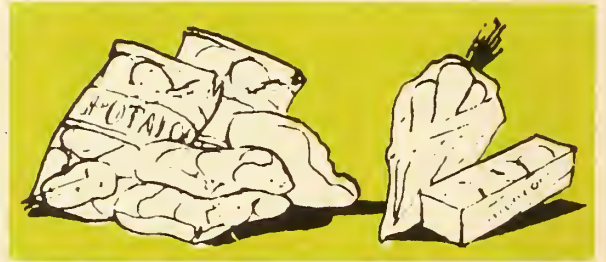
Other Examples of Today's Increased Marketing Services

Consumers are less dependent on nearby producing areas for their fresh produce. This means more fresh foods are available year around but more refrigeration, longer transportation hauls, and more handling of produce are necessary.

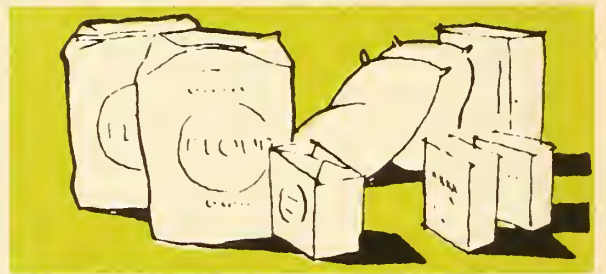
FRESH PRODUCE FOR DISTANT MARKETS



More foods are being packaged.



Foods are being packaged in smaller sizes because consumers want to buy their foods in smaller units.



Many products are now ready for cooking when the housewife buys them.



